



# *In Touch*

*With the Western Pennsylvania District Office*

Summer 2003

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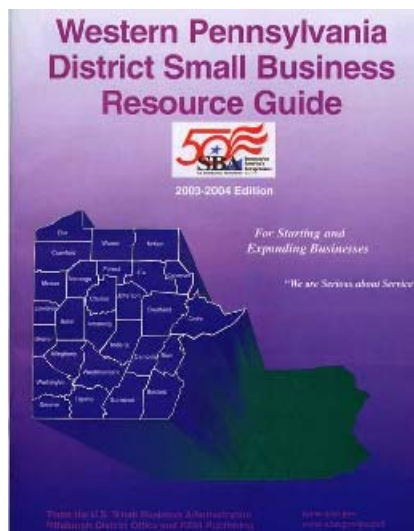
A publication for small business resource partners in Western Pennsylvania

## Reserve your copy of the Updated Small Business Resource Guide

The 2003-2004 edition of the SBA *Western Pennsylvania Small Business Resource Guide* is now available for all resource partners to share with their clients. This is an excellent tool for existing and aspiring entrepreneurs who are looking for helpful resources that will provide information as they pursue their goals.

The Guide has the latest information on SBA's programs and services, guidance to prepare a business plan, tips to obtain financing, insight into the procurement process, government regulations, and the Minority Enterprise Development 8(a) Program. Entrepreneurs will also find a comprehensive listing of participating SBA lenders, Small Business Development Centers (SBDCs), Service Corps of Retired Executives (SCORE) Chapters, Chambers of Commerce, and Economic Development Organizations.

To obtain additional copies of this Guide to pass along to clients or to distribute at small business seminars, contact Ray Becki at (412) 395-6560, extension 104 or by e-mail at [raymond.becki@sba.gov](mailto:raymond.becki@sba.gov).



## A Tribute to Janice Lanyon of SMC Business Councils

At the recent Small Business Awards Luncheon, the SBA and the Western Pennsylvania Small Business Network (WPSBN) paid a special tribute to Ms. Janice Lanyon (pictured below on the right with SBA Regional Administrator Allegra McCullough) in appreciation for all of her hard work and commitment that she provided over the last 16 years convening the annual Luncheon.

As a staff member of SMC Business Councils, Ms. Lanyon is responsible for federal government relations and participated in the 1988 Governor's Conference on Small Business and numerous Washington presentations. Jan is currently the treasurer of SMC Insurance Agency, Inc. and actively participates in the governmental affairs of her community.

Jan has passed the responsibility of coordinating the Luncheon's activities to Ellen Greek of the Pittsburgh Regional Alliance. Her contributions on this annual celebration are reflected by the steady increase in the number of attendees and the number of sponsors of the luncheon. SBA, WPSBN, resource partners, and the small business community are extremely grateful for the dedication of Jan Lanyon. Many thanks to you Jan!



# SBA Small Business Awards Luncheon



The Western Pennsylvania Small Business Network (WPSBN) hosted the 2003 Small Business Awards Luncheon on Friday, May 23, 2003 to honor the SBA award winners. The annual event was held at the Westin Convention Center Pittsburgh to recognize local entrepreneurs and small business advocates for their accomplishments and contributions to the small business community. Rocky Bleier, former Pittsburgh Steeler, was the keynote speaker and Bill Flanagan, Chief Communication Officer of Allegheny Conference on Community Development, was the Emcee of the awards celebration. The Leo McDonough Distinguished Public Official Small Business Advocate Award was presented by SMC Business Councils to Congressman Tim Murphy.

To learn more about National Small Business Week activities in Washington, DC, or to see the other winners across the country, visit the SBA's web site at <http://smallbusinesssuccess.sba.gov>.

The award winners (most are pictured below at the Winners Reception held at SMC on May 1, 2003) for the Western Pennsylvania District Office compete against the winners of the other SBA District Offices within its region and then on a national level. To differentiate between the various levels of winners (National, Mid-Atlantic Region, Pennsylvania, and Western Pennsylvania), the breakdown is as follows:

**District:** Twenty-seven counties in Western Pennsylvania

**State:** Two district offices (Pittsburgh & Philadelphia) in Pennsylvania

**Regional:** Five states (PA, DE, WV, VA, & MD) plus the District of Columbia

**National:** Represents the entire country

To nominate an individual for the 2004 Small Business Awards Program, contact Ray Becki at (412) 395-6560, extension 104 for a copy of the nomination guidelines brochure. The guidelines can also be found on the SBA's Home Page at the web address mentioned above.



## Small Business Person of the Year

*Western Pennsylvania*

Anthony Bambocci  
Digital Solutions, Inc.

## National

*Small Business Exporter*

Bill Wilson  
Wilson Forest Products

## Mid-Atlantic Region

*Small Business Journalist Advocate*

Steve Czetti  
TechyVent/Pittsburgh

## Pennsylvania

*Young Entrepreneur*

Wayan Garvey  
Impro Corporation

*Minority Advocate*

Gary Horton  
Urban Erie Community Dev. Corp.

*Veteran Advocate*

Senator Robert Robbins

*Women in Business Advocate*

Linda Leonhardt  
National City Bank of PA

## Western Pennsylvania

*Entrepreneurial Success*

Paul Gedeon  
Lane Steel

*Financial Services Advocate*

Ann Dugan  
University of Pittsburgh SBDC

*Accountant Advocate*

Michael Bergquit  
Malin, Bergquit & Company, LLP

*Research Advocate*

Dr. Thomas Falcone and  
Dr. Stephen Osborne  
IUP Eberly College of Business

*Legal Advocate*

Bob Gustine  
Hirshberg, Gustine, Straka & Orie,  
LLP

*SCORE Volunteer of the Year*

Thomas Reid  
Westmoreland SCORE Chapter

# How the SBA 504 Loan Program can Benefit Lenders and Borrowers

The SBA 504 Loan Program provides long-term, fixed rate financing to for-profit businesses for acquisition and/or development of major businesses assets. The 504 program is administered by Certified Development Companies (CDCs) which are chartered by SBA to manage the program. These non-profit economic development organizations administer the 504 loan program within a set geographic area, which may be as small as one county or as large as a multi-state area. CDCs work in conjunction with the SBA and private sector lenders bring the 504 loan program to the business community.

The typical 504 loan includes a loan from a private sector lender for up to 50% of a project, a loan from the CDC (backed by a 100% SBA guaranteed debenture) covering up to 40% of the project cost, and an equity injection of 10% from the applicant business. For projects involving the acquisition or development of a special purpose or limited use property (one that has unique physical design, special construction materials, or a layout that restricts its utility to the use for which it was built), SBA participation is limited to 35% of the total project costs, and the borrower must provide at least a 15% equity injection. However, there is virtually no limit on the types of assets that can be financed under the 504 program including manufacturing/industrial/commercial buildings, hotels/motels, assisted/personal care facilities, day care facilities, automobile dealerships/auto body repairs shops, restaurants, and fitness and recreational centers.

For projects involving financing of a new business (typically a business that has been in operation for less than two years), SBA participation is again limited to 35% of the total project costs, and the applicant business must provide at least a 15% equity injection. If the project involves financing of both a special purpose or limited use property and a start up operation, SBA participation is limited to 30% of eligible project costs, and the applicant business must provide at least 20% of the project financing via equity contributions.

The maximum SBA debenture is normally limited to \$1 million, and the applicant business must create or retain at least one new full time equivalent job for every \$35,000 in funds provided by the SBA. If the applicant is seeking SBA assistance to retain jobs, the business must demonstrate that the jobs would be lost if not for the financial assistance provided as part of the project.

SBA can provide a higher amount of financing, a maximum loan of \$1.3 million, if the proposed projects meets one of the SBA's "Public Policy Goals" such as: business district revitalization; expansion of exports; financing to businesses owned (at least 51%) by women, minorities, or veterans; rural development; enhanced economic competition; restructuring due to federally mandated standards or policies; or changes necessitated by federal budget cutbacks.

Under the 504 program, loan proceeds can be used for fixed asset projects such as land and buildings (acquisition or

construction), renovations to existing properties, infrastructure requirements (tapping fees for utilities), site prep (excavating, grading, paving, and final landscaping), purchase of long-term machinery and equipment, a reasonable project funding contingency, and related legal and closing fees (attorney's fees, title insurance, recording fees, site surveys, etc.). The 504 loan program cannot be used to finance working capital, inventory, equipment having only a short term useful life, or to refinance existing debt.

The term of 504 loans is limited to either a 10 year or a 20 year term, based on the useful life of the assets being financed. Interest rates are based on a spread over five year or ten year treasury issues and a key advantage of the 504 program is that the interest rate for the SBA portion of the project is fixed for the entire term of the loan. Origination fees for 504 loans are approximately three percent (3.00%) of the debenture and can be financed with the loan. In addition, the lead lender pays a one-time fee to SBA that is equal to one-half of one percent (0.50%) of the senior loan. On larger projects, the fee can be significantly lower than fees paid to SBA for a larger 7(a) loan.

A typical 504 loan is collateralized by the assets being financed. Personal guarantees are also required from the owners of the business. The private sector lead lender holds the senior position (this prohibits the lead lender from financing its loan under the 7(a) program), while the SBA holds a junior position. In affect, the lead lender is able to fund a project while holding a loan to value ratio of 50%. Since the 504 program requires that all project costs be documented before the debenture is funded, the lead lender must also provide an interim loan in addition to its permanent project financing.

The 504 loan program provides significant advantages for both the borrower and the lead lender, and is particularly attractive when financing larger projects. While the 7(a) program limits the size of the project to \$2 million, there is no upper limit on the size of a 504 loan. For larger projects, the senior loan can be greater than 50% of the total project cost, provided that the applicant meets SBA's minimum equity injection requirements for the project. SBA 504 projects can also include other sources of economic development financing which can further reduce the lead lender's exposure in a specific project. Upon debenture funding, it is the CDC's job, rather than the lead lender's, to service the SBA loan; therefore, the lead lender does not complete 1502 reports for 504 projects.

The SBA's Western Pennsylvania District Office has at least one CDC operating in all 27 counties which it serves; please contact the local SBA District Office for further information.

*Submitted by:*

Barry Surma, Director of Finance and Development Programs  
Altoona-Blair County Development Corporation

Chartered in 1982 by the SBA, ABCD Corporation operates a ten county CDC territory serving Western and Central Pennsylvania



## SBA Electronic Lending Home Page

[www.sba.gov/banking](http://www.sba.gov/banking)

The SBA has a home page for participating SBA lenders to provide a wealth of information that a lender can access on-line directly from the office. Lenders, intermediaries, and other SBA resource partners can utilize the Electronic Lending Home Page to access:

- ◆ Latest updates on the SBA's loan programs
- ◆ SBA's Standard Operating Procedure 50 10 for Loan Processing
- ◆ SBA Procedural Notices
- ◆ SBA Forms
- ◆ SBA Loan Authorizations
- ◆ Policy Interpretation
- ◆ North American Industry Classification System (NAICS) Codes

## Small Business Lending Profitable for Banks

Banks that specialize in small business lending, including large holding companies, show more return on equity than their counterparts. This finding contradicts the conventional wisdom that large bank holding companies find small business lending a less profitable operation.

Authored by Dr. James Kolari of Texas A&M University, *Assessing the Profitability and Riskiness of Small Business Lenders in the Banking Industry* funded by the SBA Office of Advocacy, concludes that small business lending normally either has neutral or positive effects on profitability for most banks.

Small banks have traditionally been one of the major suppliers of credit to small businesses. Concerns have grown that the deregulation and consolidation through mergers and acquisitions in the banking industry will adversely affect banks' lending to small business. The argument is that because of higher risk and larger administrative costs per dollar of loan involved in lending to small firms, large bank holding companies will find small business lending a less profitable operation.

The report suggests that defining profitability either as return on equity or as return on assets determines whether small business lenders are more profitable than other banks. Nonetheless, under either definition, the current conventional wisdom that consolidated banks will find small business lending unprofitable does not hold up.

The Office of Advocacy examines the role and status of small business in the economy and independently represents the views of small business to Congress and the President. For more information, visit the Office of Advocacy's web site at [www.sba.gov/advo](http://www.sba.gov/advo). **SBA**

## Microloan Program Continues to Thrive

The Washington County Council on Economic Development (WCCED) has been among the forerunners in SBA microlending since the program's beginnings in the early 1990's. Under the direction of the Executive Director, Malcolm "Max" Morgan, the Council has assisted numerous entrepreneurs in southwestern Pennsylvania as well as in West Virginia in making their dreams become realities. WCCED's Microloan service area in the Western Pennsylvania District includes Fayette, Greene, Washington, and Westmoreland Counties. The organization recently received \$500,000 in funding from the SBA to lend out to directly to small businesses in western Pennsylvania. The board (pictured below) joined together with the representatives from the local SBA for the official documentation signing of the funds. For information on the SBA Microloan Program in this area, contact WCCED at (724) 225-8223.

In addition to WCCED receiving funds for their program, Community Loan Fund of Southwestern Pennsylvania was awarded \$750,000 and North Central Pennsylvania Regional Planning & Development Commission received \$250,000. There are two new microloan intermediaries in the district that also received funding: North Side Community Development Fund (\$200,000) and Corporation for Owner-Operator Projects (\$200,000).



## SCORE Opens Southpointe Location

The Pittsburgh SCORE Chapter, in conjunction with the Mon Valley SCORE Chapter, has opened an additional location at California University of Pennsylvania's Southpointe. This office will serve entrepreneurs in Washington County and southern Allegheny County. Counselors will be available on Tuesdays from 10:00am to 3:00pm and by appointment at:

California University of PA  
Southpointe Center  
135 Technology Drive  
Bailey Center 11 – Suite 509  
Canonsburg, PA 16317  
(724) 873-2760

**SCORE**  
Counselors to America's Small Business

## SBA Region III Administrator Spends the day in Pittsburgh



In mid-April, SBA Region III Mid-Atlantic Regional Administrator, Allegra McCullough (pictured above on the right in the blue suit), visited western Pennsylvania. On Wednesday, April 16, 2003, Allegra was the keynote speaker at the African American Chamber of Commerce Power Breakfast meeting. The event offered the opportunity for Ms. McCullough to discuss SBA's 50<sup>th</sup> Anniversary, President Bush's vision for the Agency, and plans for increasing procurement opportunities for minorities and women.

The day followed with a visit to University of Pittsburgh Small Business Development Center to take a tour of the facilities and speak with Assistant Director Christine Kush about the Center's upcoming events. Ms. McCullough then met with Executive Director Emily Buka of the Riverside Center for Innovation, where the SBA Business Information Center is located, who provided a tour of the incubator. At the conclusion of the day's activities, the Regional Administrator joined resource partners and lenders at a roundtable to discuss issues concerning small businesses.

SBA

## District Office Kicks off 50<sup>th</sup> Anniversary Celebration at Library

The SBA Western Pennsylvania District Office commemorated the 50<sup>th</sup> Anniversary of the U.S. Small Business Administration at the Carnegie Library in Pittsburgh. The Business Department at the Library offered the opportunity to meet with their visitors by providing a display table near the entrance of the Library. During the week of May 19, 2003, SBA staff members (pictured below) were on hand with brochures, resource guides, and other materials to inform those interested in starting or expanding a business of the many resources available to assist them.

The week concluded with the successful annual Small Business Awards Luncheon held on Friday, May 23, 2003 at the Westin Convention Center, Pittsburgh, with over 500 individuals in attendance.



## New Small Wares Accounting Method Simplifies Recordkeeping and Allows Immediate Deduction

*Submitted by the IRS*



A new IRS procedure allows restaurant and tavern owners to change accounting methods and expense the cost of replacement dishware, glassware, and other items that previously had to be depreciated. The small wares method of accounting allows restaurants and taverns to deduct the cost of these replacement items in the year purchased.

Generally, small wares consist of the following categories: glassware, flatware, dinnerware, pots and pans, table top items, bar supplies, food preparation utensils and tools, storage supplies, service items, and small appliances costing \$500 or less.

The small wares accounting method can only be used by persons engaged in the business of operating a restaurant or tavern that prepares food and beverages. It is not available for new business start-up purchases of small wares and does not apply to items purchased and stored at a warehouse or location other than the restaurant or tavern where the items are used.

To elect this method, use Form 3115, Application for Change in Accounting Method, which can be downloaded at [www.irs.gov/pub/irs-fill/f3115.pdf](http://www.irs.gov/pub/irs-fill/f3115.pdf) and Revenue Procedure 2002-12 at [www.irs.gov/pub/irs-drop/rp-02-12.pdf](http://www.irs.gov/pub/irs-drop/rp-02-12.pdf).

# Entrepreneur's Growth Conference



Duquesne University Chrysler Corporation Small Business Development Center held its fifth annual Entrepreneur's Growth Conference on June 12, 2003 at the campus of Duquesne University. The conference kicked off with a keynote address by Glen T. Meakem, Founder and Chairman of FreeMarkets, Inc., about the *Seven Secrets of Entrepreneurial Success: An Unvarnished, Real-World View from the Trenches*. During a luncheon for the attendees, Don Morton, Assistant to the President of Microsoft Business Solutions, address the audience on *To Work is to Survive. To Win is Something More!*

The 2003 Entrepreneur's Growth Conference offered a wide range of track sessions for entrepreneurs across all industries and stages of growth, including the start-up phase. The 450 attendees had the opportunity to choose from over 23 workshops in five tracks: start-up, growth, technology, biotechnology, and special interest tracks.

The end of the day concluded with participants visiting the Business Building Tradeshow and scheduling one-on-one consultation with mentors to discuss business planning, financing, advertising, legal, accounting, or any other economic development issue.

## Additional \$1.4 Billion Available for SBA Loan Program

The U.S. Small Business Administration announced that \$1.4 billion in additional loan authority will be made available for small business lending for fiscal year 2003. As a result, lending authority in the agency's primary business loan program, 7(a), will increase to almost \$11.0 billion.

The new loan authority will be made available by applying a new 7(a) econometric subsidy model to the STAR program for FY 2003. The STAR (Supplemental Terrorist Activity Relief) Program was established to assist small businesses affected by the terrorist attacks of September 11, 2001, and was in effect through January 11, 2003. From October 1, 2002 through January 11, 2003, \$1.663 billion in STAR loans were made.

By applying the new model to the STAR Program, the estimated cost of the program declines dramatically. This frees up \$12.3 million that will now be transferred to the 7(a) program to make loans to small businesses. Since January, some loans approved through the STAR Program have been cancelled, allowing the SBA to transfer about \$2.8 million in additional funds to the 7(a) program. Together, these transfers support roughly \$1.449 billion in additional 7(a) loans. **SBA**

## SBA Pumps Nearly Half Billion into Regional Economy

The U.S. Small Business Administration approved 3,686 small business loans valued at \$404.9 million in the Mid-Atlantic region during the first six months of the fiscal year, which ended March 31, 2003, announced Allegra F. McCullough, Region III Administrator. The Western Pennsylvania Pittsburgh District Office approved 1,299 for over \$83 million, which includes microloans and 504 loans.

"Perhaps more important than the loans themselves is the fact that 1,634 jobs have been created in Delaware, Maryland, Pennsylvania, Virginia, West Virginia, and the District of Columbia as a direct result of SBA's 504 loan program," McCullough said. SBA's 504 loan program is a long-term, fixed asset financing tool for economic development within a community. Job creation is a critical component of this program.

The SBA set new records in total lending numbers and dollars in Region III last fiscal year when 5,252 loans for nearly \$1 billion were made to small businesses. Nationally, the SBA set an all-time lending record for total loan dollars in fiscal year 2002 – an unprecedented \$14.7 billion. The agency made 57,146 small business loans last year. Additionally, new records were set nationally in total loan dollars and number of loans to women-owned businesses.

More than 67,950 prospective and/or established small business owners received counseling and training from SBA and its resource partners during the first six months of this fiscal year throughout the region. "Many small businesses that have received SBA financing and are now creating jobs and contributing to the economy initially received technical assistance first from the SBA," McCullough said.

"The SBA offers a complete package from business inception through expansion," she added. "Through our 8(a) business development program, our SBA offices in Region III assist 1,785 socially and economically disadvantaged small businesses with government contracting opportunities." **SBA**

### How many small businesses are there?

In 2002, there were approximately 22.9 million businesses in the United States, according to the SBA Office of Advocacy. The IRS estimates there were 26.4 million business tax returns in 2002; however, this number may overestimate the number of firms, as one business can operate more than one taxable entity.





## Upcoming Events

- July 24, 2003 – “B&B: Business & Bids.” Contact Yvonne Dowe at (412) 395-6560, x121 for additional information. Location to be announced.
- July 30, 2003 – “Highlights of the 2003 Tax Act for Individuals and Small Businesses” @ Business Information Center, North Side. Contact Don Nemchick at (412) 322-6441 for additional information.
- July 31, 2003 – “Getting Started with a Web Site for your Business” @ Business Information Center, North Side. Contact Don Nemchick at (412) 322-6441 for further details.
- August 6-8, 2003 – Showcase of Industry & Technology @ Belmont Complex, Kittanning, PA sponsored by Armtech and Congressman Murtha.
- August 21, 2003 – “Get Onboard the Community Express-s!” @ SBA’s Business Information Center, North Side. Contact Don Nemchick at (412) 322-6441 to RSVP.
- The SBA’s Business Information Center (BIC) on the North Side offers a variety of conferences to enlighten entrepreneurs who want to further develop or expand their businesses. For more details, call the BIC at (412) 322-6441.
- The U.S. Small Business Administration posts future programs and seminars, including the training sessions offered by the local SBDCs and SCORE

Chapters, on the Calendar of Events site on its Home Page.

For

a schedule of upcoming local events, visit the SBA web site at [www.sba.gov/calendar/states/pennsylvania.html](http://www.sba.gov/calendar/states/pennsylvania.html).

- SBA 8(a) Application Seminar is held on the last Wednesday of each month. Minority business owners are strongly encouraged to attend as well as women-owned businesses and disabled business owners. Contact the 8(a) Business Development staff at SBA for further information.
- The Small Business Development Centers (SBDCs) have various educational programs for start-up and existing businesses. A listing of the local SBDCs can be found at [www.sba.gov/pa/pitt/pittsbdc.html](http://www.sba.gov/pa/pitt/pittsbdc.html).
- The Service Corps of Retired Executives (SCORE) conducts Pre-Business Workshops for a nominal fee and offers counseling services at no cost to the small business owner. A listing of the local SCORE Chapters can be found at [www.sba.gov/pa/pitt/pittscore.html](http://www.sba.gov/pa/pitt/pittscore.html).

## Did you know...

The number of small businesses has increased 33.3 percent since 1987.



## In Touch

The Western Pennsylvania District Office would like you to keep in touch!

You can reach us at:

Small Business Administration  
Western Pennsylvania District Office  
Federal Building - Room 1128  
1000 Liberty Avenue  
Pittsburgh, PA 15222-4004  
(412) 395-6560  
(412) 395-6562 FAX

Western PA Business Information Center  
Riverside Commons Innovation Center  
700 River Avenue – Suite 510  
Pittsburgh, PA 15212  
(412) 322-6441  
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If you are interested in contributing information for this newsletter, please contact us.



SBA Online:  
[www.sba.gov](http://www.sba.gov)

SBA Western Pennsylvania District Office Online:  
[www.sba.gov/pa/pitt/](http://www.sba.gov/pa/pitt/)

Staff Directory:  
[www.sba.gov/pa/pitt/directory.html](http://www.sba.gov/pa/pitt/directory.html)

# How Well do You Know SBA?

1. The Western Pennsylvania Pittsburgh District Office of SBA has approved how many guaranteed loans for the first six months of FY 2003?
  - a) 575
  - b) 783
  - c) 964
  - d) 1,299
2. Western Pennsylvania has a new SCORE Location in:
  - a) Canonsburg
  - b) Brookville
  - c) Ridgway
  - d) Seven Springs
3. The U.S. Small Business Administration is celebrating its
  - a) 100<sup>th</sup> Anniversary
  - b) 75<sup>th</sup> Anniversary
  - c) 50<sup>th</sup> Anniversary
  - d) 25<sup>th</sup> Anniversary
4. How many potential and existing entrepreneurs received counseling and training from SBA and its resource partners for the first six months of this fiscal year?
  - a) 25 million
  - b) 67,950
  - c) 38,492
  - d) 5,861
5. The SBA 504 Loan Program offers which of the following:
  - a) A fixed interest rate for the SBA portion of the project
  - b) CDCs service the loan rather than the lenders
  - c) Typical 504 loan requires an equity injection of 10% from borrower
  - d) All of the above.

Answers: 1) d; 2) a; 3) c; 4) b; 5) d

## ***In Touch***

U.S. Small Business Administration  
Western Pennsylvania District Office  
Federal Building - Room 1128  
1000 Liberty Avenue  
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